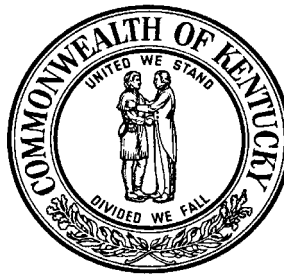


**REPORT OF THE AUDIT OF THE
FORMER POWELL COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

January 5, 2003



**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Robert Ray Drake, Powell County Judge/Executive
Honorable Darren Farmer, Former Powell County Sheriff
Honorable Billy Joe Martin, Jr., Powell County Sheriff
Members of the Powell County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the former Powell County Sheriff's Settlement - 2002 Taxes.

We engaged Ross & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC, evaluated the former Powell County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
FORMER POWELL COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

January 5, 2003

ROSS & COMPANY, PLLC
Certified Public Accountants

**800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132**

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
FORMER POWELL COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

January 5, 2003

Ross & Company, PLLC, has completed the audit of the Sheriff's Settlement - 2002 Taxes for the former Powell County Sheriff as of January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$1,483,851 for the districts for 2002 taxes, retaining commissions of \$61,779 to operate the Sheriff's office. The former Sheriff distributed taxes of \$1,422,083 to the districts for 2002 Taxes. Taxes of \$11 are due to the districts from the former Sheriff and refunds of \$22 are due to the former Sheriff from the taxing districts.

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.

<u>CONTENTS</u>	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT	1
SHERIFF’S SETTLEMENT - 2002 TAXES	3
NOTES TO FINANCIAL STATEMENTS	5
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	8

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Robert Ray Drake, Powell County Judge/Executive
Honorable Darren Farmer, Former Powell County Sheriff
Honorable Billy Joe Martin, Jr., Powell County Sheriff
Members of the Powell County Fiscal Court

Independent Auditor's Report

We have audited the former Powell County Sheriff's Settlement - 2002 Taxes as of January 5, 2003. This tax settlement is the responsibility of the former Powell County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Powell County Sheriff's taxes charged, credited, and paid as of January 5, 2003, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Robert Ray Drake, Powell County Judge/Executive
Honorable Darren Farmer, Former Powell County Sheriff
Honorable Billy Joe Martin, Jr., Powell County Sheriff
Members of the Powell County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated August 8, 2003, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company". The signature is written in dark ink and is positioned below the "Respectfully submitted," text.

Ross & Company, PLLC

Audit fieldwork completed -
August 8, 2003

POWELL COUNTY
DARREN FARMER, FORMER COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

January 5, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 232,456	\$ 220,221	\$ 846,628	\$ 330,332
Tangible Personal Property	18,273	14,728	49,461	52,826
Intangible Personal Property				11,273
Fire Protection	1,192			
Increases Through Exonerations	502	475	1,828	713
Franchise Corporation	22,388	18,640	64,534	
Oil and Gas Property Taxes	132	125	482	188
Limestone, Sand, and Mineral Reserves	271	257	988	386
Bank Franchises	20,851			
Penalties	43	40	154	60
Adjusted to Sheriff's Receipt	348	300	970	69
Gross Chargeable to Sheriff	<u>\$ 296,456</u>	<u>\$ 254,786</u>	<u>\$ 965,045</u>	<u>\$ 395,847</u>
<u>Credits</u>				
Exonerations	\$ 2,076	\$ 1,962	\$ 7,541	\$ 2,933
Discounts	3,167	2,947	11,219	5,093
Charges Transferred to New Sheriff	<u>56,075</u>	<u>52,735</u>	<u>202,192</u>	<u>80,343</u>
Total Credits	<u>\$ 61,318</u>	<u>\$ 57,644</u>	<u>\$ 220,952</u>	<u>\$ 88,369</u>
Taxes Collected	\$ 235,138	\$ 197,142	\$ 744,093	\$ 307,478
Less: Commissions *	<u>10,281</u>	<u>8,379</u>	<u>29,765</u>	<u>13,354</u>
Taxes Due	\$ 224,857	\$ 188,763	\$ 714,328	\$ 294,124
Taxes Paid	224,859	188,752	744,074	294,128
Commission Refunds From Schools			<u>29,730</u>	
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (2)</u>	<u>\$ 11</u>	<u>\$ (16)</u>	<u>\$ (4)</u>

POWELL COUNTY

The accompanying notes are an integral part of this financial statement.

DARREN FARMER, FORMER COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES
January 5, 2003
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	729,759
4% on	\$	744,092

** Special Taxing Districts:

Library District	\$	(1)
Health District		1
Extension District		11
		<hr/>
Due Districts or (Refunds Due Sheriff)	\$	<u>11</u>

The accompanying notes are an integral part of this financial statement.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENTS

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of January 5, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
January 5, 2003
(Continued)

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 28, 2002 through January 5, 2003.

Note 4. Interest Income

The Powell County Sheriff earned \$1,641 interest income on 2002 taxes. As of August 8, 2003, the Sheriff owed \$105 interest to the school district and \$149 interest to his fee account.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Robert Ray Drake, Powell County Judge/Executive
Honorable Darren Farmer, Former Powell County Sheriff
Honorable Billy Joe Martin, Jr., Powell County Sheriff
Members of the Powell County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Powell County Sheriff's Settlement - 2002 Taxes as of January 5, 2003, and have issued our report thereon dated August 8, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Powell County Sheriff's Settlement - 2002 Taxes as of January 5, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Powell County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in black ink.

Ross & Company, PLLC

Audit fieldwork completed -
August 8, 2003

